

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting
(Proposal Thirteen)

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Docket No. RM2015-7

UNITED PARCEL SERVICE, INC.'S REPLY TO COMMENTS OF
THE UNITED STATES POSTAL SERVICE AND
AMAZON FULFILLMENT SERVICES, INC.
RELATED TO PROPOSAL THIRTEEN

(July 22, 2015)

United Parcel Service, Inc. ("UPS") respectfully submits this reply to the Comments filed on July 8, 2015 of the United States Postal Service ("Postal Service Comments") and Amazon ("Amazon Comments") regarding the Supplemental Report by Dr. Kevin Neels on behalf of UPS. The Public Representative also filed comments regarding Dr. Neels' Supplemental Report ("Public Representative Comments").

I. OVERVIEW

UPS respectfully submits that the National Form 3999 Model, despite modest limitations, is far superior to Proposal Thirteen. UPS has demonstrated that Proposal Thirteen rests on unproven assumptions about how artificial and narrowly-drawn cost categories behave and interact. A central feature of Proposal Thirteen, for example, is the assumption that there is no relationship between parcel volumes and so-called "regular" delivery time, despite this assumption being unsupported by either reality or

data. It even remains unclear exactly what “regular” delivery time entails.¹ This same ambiguity exists within another cost bucket – “network travel time” – which Proposal Thirteen treats as wholly fixed, without any econometric support.

Proposal Thirteen is also dependent on data collected from a special package field study and offers no other path forward. This field study was conducted over only two weeks, in which carriers self-reported how long they spent on narrowly (and arbitrarily)-categorized activities. Such studies are inherently imperfect and costly, and thus they are often undersized and rarely updated, forcing the Commission to rely on models based on stale data.

Dr. Neels has developed a better approach. He has developed a model that does not rely on assumptions about how various cost buckets behave and interact. He continues to show there is no need to divide city carrier time into buckets for parcel and “regular” delivery time and that a holistic approach can be used instead. He has shown it is possible to replace collecting data from special studies with using data collected in the ordinary course of the Postal Service’s business. Dr. Neels’ model – the National Form 3999 Model – is able to let the data speak for itself.

In their reply comments, the Postal Service and Amazon focus their criticisms on the fact that Dr. Neels needs to impute certain explanatory variables to fill gaps in the data collected by the Postal Service. As discussed below, and in Dr. Neels’ Second Supplemental Report, which accompanies these comments, Dr. Neels has continued to refine his imputation approach in light of the comments by the Postal Service and Amazon. Dr. Neels has made three adjustments to his imputation models that have

¹ UPS identified this ambiguity in its previous comments. See UPS Supplemental Comments at 8 n.4 (Jun. 8, 2015). The Postal Service did not respond.

resulted in measurable improvements and generated results that are reliable and reasonable. Moreover, the need for Dr. Neels to impute these variables at all is itself a *temporary* issue. In the future, the National Form 3999 Model could be easily updated to reduce or eliminate the need for imputing these variables soon after the Postal Service begins collecting the missing parcel data. This adaptability is yet another strength of Dr. Neels' model.

The National Form 3999 Model embodies a much-needed, modern approach to postal cost attribution. It provides a path forward that is unburdened by the weaknesses embedded in Proposal Thirteen. The Commission should adopt it, with the improved imputation approaches described in Dr. Neels' Second Supplemental Report.

The National Form 3999 Model approach is appropriately sensitive to the volume information it relies upon. To the extent the Commission remains concerned about the volume imputations currently used in the National Form 3999 Model, it should adopt for now the Modified Proposal Thirteen developed by Dr. Neels that does not rely on the artificial division between "regular" and parcel delivery time.

In either case, the Commission should instruct the Postal Service to start collecting accurate parcel count data as part of the route evaluation process that gives rise to the Form 3999 data. If it were to do so, a valuable resource for further improving city carrier cost attribution would emerge rapidly. As Dr. Neels explains, even one year of collecting accurate parcel counts as part of the route evaluation process could yield a dataset for updating or re-estimating the National Form 3999 Model. An already strong model could become even stronger.

II. DR. NEELS' IMPROVED IMPUTATION METHODS GENERATE RELIABLE RESULTS.

The National Form 3999 Model uses a much broader and more comprehensive dataset than that used by Proposal Thirteen. As Dr. Neels acknowledges, however, the model must impute data from the special studies relied on by the Postal Service for its cost attributions, in order to generate a comprehensive national dataset. This is because the Postal Service currently does not collect operational data on parcel, accountable, or collection volumes.²

Dr. Neels' need to impute this data is the principal basis for the criticisms of the National Form 3999 Model by the Postal Service and Amazon. Dr. Bradley argues that this need for imputation is the "primary drawback" of an approach based on Form 3999 data. See Bradley Report at 3 (Jul. 8, 2015). Similarly, Amazon states that the model's "reliance on imputed values" is its "main flaw." See Amazon Comments at 2; Lundblad Report at 3 (Jul. 8, 2015).³ In short, what they view as the largest problem with the Neels Model is a problem of the Postal Service's own creation that the Commission may easily and quickly correct.

² Imputation is a standard econometric practice that the Commission has accepted in the past. See, e.g., Dkt. No. RM2013-6, Order No. 1983 at 12, 16 (Feb. 4, 2014) (confirming support for calculation of imputed costs associated with international air transportation costs for outbound mail products); Dkt. No. RM2008-6, Order No. 118 at 7 (Oct. 22, 2008) (approving imputing distribution of costs of routes dedicating to servicing blue collection boxes from letter routes that also service blue collection boxes).

³ The Postal Service and Amazon also question UPS's motivation for submitting comments in this docket. But such criticisms are unproductive and could easily be turned around. The Postal Service, for example, has a long history of seeking to minimize cost attribution to maximize its own pricing flexibility. See Robert Cohen and John Waller, *The Postal Service Variability Ratio and Some Implications* at 1 (2014) (observing that the Postal Service has long preferred lower levels of cost attribution to preserve "the amount of flexibility it had when proposing pricing changes").

The Public Representative also expresses concern about the need to impute missing data. At the same time, she praises the conceptual design of Dr. Neels' model, agreeing that parcels should be included in regular delivery time and allied costs should not be piggybacked onto direct costs. Public Representative Comments at 3-4.

Dr. Neels has considered the comments of the Public Representative, the Postal Service, and Amazon, and he has continued to refine the model's imputation approach. As a result, Dr. Neels has made three refinements to his model, while attempting to stay as "close as possible to both the general spirit and the specific features and details of the analysis presented in the June Report." See Neels Second Suppl. Rep. at 11.

First, Dr. Neels has considered Dr. Bradley's observation that, while the Form 3999 data spans a multiyear period from 2010 through 2013, the Postal Service parcel study data from which Dr. Neels' imputation models come are drawn entirely from a two-week period in spring 2014. Consistent rising parcel volumes complicate the ability of a model using 2014 data to produce accurate parcel volume estimates for earlier years. Dr. Neels acknowledges this is a "thoughtful observation," and has adjusted his model accordingly. See *id.* at 15.

Specifically, Dr. Neels incorporated intertemporal volume change indexes into his imputation models. See *id.* at 16-21. To construct the volume indexes associated with the imputed postal products (*i.e.*, collections, accountables, and parcels), Dr. Neels combined "horizontal" data from the ACR2014 distribution keys for these three mail streams, which indicates the relative proportion of cost attribution for these products, with "vertical" annual piece counts from the annual Revenue, Pieces and Weights

reports,⁴ which indicate how piece counts change over time. Combining the horizontal across-product distribution keys and the vertical temporal piece counts, he constructed a volume index for each of the three imputed mail streams, which allows the model to account for year-to-year variations in volume. Dr. Neels then conducted a series of tests that verified the accuracy and reliability of his volume indexes. See *id.* at 19-21.

Second, Dr. Neels combined “deviation” and “in-receptacle” parcels into a single variable. Dr. Neels has observed that treating “deviation” and “in-receptacle” parcels as separate variables does not correspond to the operational practices of the Postal Service, as there does not appear to be an objective methodology for determining which parcels are “in-receptacle” and which parcels are “deviation” before the carrier arrives at the mailbox. *Id.* at 22-23. Furthermore, Dr. Neels recognized that these two variables shift in “interrelated ways” in response to small changes in model specification. *Id.* at 21. This suggests that the two variables are highly correlated, and thus utilizing two separate variables adds little information or value to the model. See *id.* at 22-23.

As a result, Dr. Neels tested whether he could obtain more reliable results by combining the two into a single variable. His analysis shows that combining these two variables results in a more stable model and reduces the calculated marginal time for delivering a package to a number more in line with the package delivery time benchmarks put forward by the Postal Service. For cost attribution purposes, Dr. Neels can then use another statistical system currently maintained by the Postal Service – the City Carrier Costing System – to calculate how the parcel mail stream is divided between deviation and in-receptacle parcels, and to track changes in these proportions

⁴ These reports are submitted as part of the Annual Compliance Report.

over time. *Id.* at 23-24. In addition to yielding more reliable statistical results, this approach makes it easier for the Postal Service to collect accurate parcel cost data as part of its route evaluation purposes. All the Postal Service needs to do is make a single undifferentiated count of the two categories of parcels before the letter carrier leaves the delivery unit. *See id.* at 23.

Third, Dr. Neels has substituted a linear imputation model for the negative binomial imputation model. This refinement addresses Dr. Bradley's concerns about "out of sample" forecasting and Dr. Bradley's tests purportedly showing the inability of one week of special study data to predict the second week of special study data. *See Bradley Report* at 5-8. Originally, Dr. Neels thought it was important to use the more complex "negative binomial" model because the underlying data takes the form of integers rather than general decimal numbers (*e.g.* 3, 5, and 6 instead of 3.5, 5.435, and 6.6548). *See Neels Second Suppl. Rep.* at 12. But he has determined that the additional complexity of the "negative binomial" model is unnecessary.⁵ When Dr. Neels tested a simpler linear model, it performed statistically better than the negative binomial model. *See id.* As a result, substitution of the linear imputation model in place of the negative binomial imputation model responds to Dr. Bradley's concerns about the efficacy of Dr. Neels' out of sample forecasting.

With these refinements, the National Form 3999 Model generates strong results that accord with common sense and are consistent with the Postal Service's best data on the marginal time and cost associated with each parcel.

⁵ As explained by Dr. Neels, the difference between integers and "real" numbers becomes less important as the magnitude of the data increases. This difference is not important at the relevant parcel counts.

In its reply comments, the Postal Service argued that the results generated by the National Form 3999 Model are out-of-step with other benchmarks. See, e.g., Bradley Report at 15. But the updated results of the model are now consistent with those benchmarks. For example, the Postal Service's special package study recorded an average delivery time of 28.5 seconds for in-receptacle parcels and 52.6 seconds for deviation parcels. The updated National Form 3999 Model reports marginal delivery times of 39.55 seconds for in-receptacle parcels and 73.09 seconds for deviation parcels. Neels Second Suppl. Rep. at 28. These updated figures are also well within the acceptable times expected by the Postal Service's operations experts. CCST Report at 101 (the operations experts believed that an in-receptacle package should take no longer than three minutes to deliver, and a deviation parcel should take no longer than five minutes).

Dr. Bradley and Dr. Lundblad also assert that multicollinearity may undermine the reliability of the National Form 3999 Model's results. See Bradley Report at 13; Lundblad Report at 4. Dr. Neels has concluded, however, that these criticisms do not require him to make any adjustments to his model.

As Dr. Neels explains, multicollinearity has not introduced any bias in his statistical results. See Neels Second Suppl. Rep. at 2-5. Instead, multicollinearity is akin to the issue of small sample size: both are issues that are readily measurable and addressed through the use of larger datasets, as Dr. Neels has consistently advocated. *Id.* at 5. Multicollinearity goes hand in hand with the use of the flexible form preferred by the Postal Service since the flexible form seeks to determine the effects of many variables, or regressors, on a dependent variable, even when these variables are highly

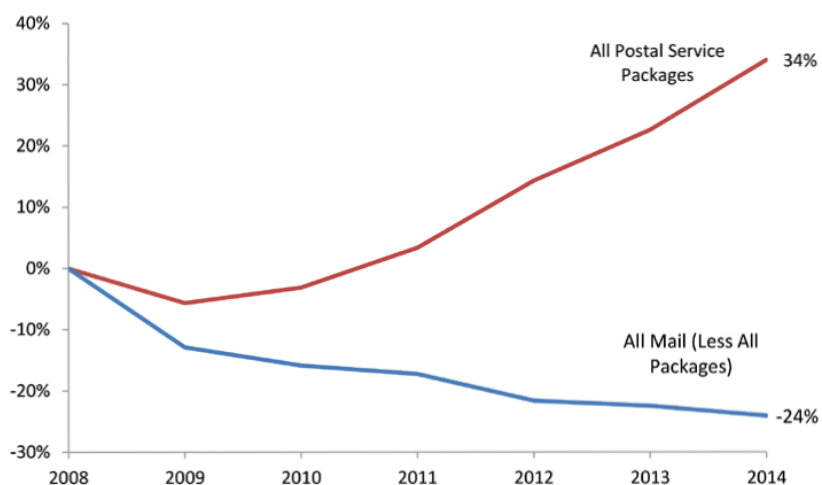
correlated with each other. See *id.* Indeed, “one of the purposes of multiple regression analysis is to permit one to disentangle individual associations in the presence of collinear regressors.” *Id.* at 4. Because the National Form 3999 Model is based on a sample of over 140,000 routes in over 10,000 ZIP Codes, the sample size – with imputed data or with accurate parcel data once the Postal Service collects it – is sufficient to overcome the effects of multicollinearity. See CCST Report at 70 (“[A]n increase in the amount of data is an outstanding solution to multicollinearity.”).

III. ONCE THE POSTAL SERVICE BEGINS COLLECTING ACCURATE PARCEL COUNT DATA, THAT DATA CAN BE INTEGRATED INTO THE NATIONAL FORM 3999 MODEL TO GENERATE EVEN MORE ACCURATE RESULTS.

Another strength of the National Form 3999 Model is that, once the Postal Service begins collecting accurate parcel count data, that data can be used to update or re-estimate the National Form 3999 Model. In turn, the model could then generate even more accurate results.

The only reason the model must impute data today is because the Postal Service fails to collect adequate data about the parcels it delivers, a product of the Postal Service treating parcels as a minor aspect of its business. This approach is not tenable. Non-package postal products have declined 24% since 2008, and package volumes have increased 34%. See U.S. Postal Service Office of Inspector General, *Package Services Forum Recap* at 3 (Jul. 8, 2015). Figure 1 displays this trend, which is expected to continue.

Figure 1: Package and Non-Package Growth Rates Since 2008



The Commission should not reward the Postal Service's inadequate data collection practices by rejecting the superior National Form 3999 Model in favor of accepting the flawed Proposal Thirteen the Postal Service has proposed. Rather, the Commission should direct the Postal Service to collect the missing data, if it is not going to do so on its own accord. There is no reason why the Postal Service should not start doing a better job of collecting parcel data. The Postal Service is staking its future on its parcel business, yet it does not collect the parcel count data necessary for the Commission, and the Postal Service itself, to determine whether parcels are covering their costs.⁶

As Dr. Neels explains, if the Postal Service were to take this step, a valuable resource for improving city carrier cost attribution would emerge rapidly. One year of producing accurate parcel counts as part of the route evaluation process could yield a dataset for updating or re-estimating the National Form 3999 Model that contained over

⁶ As UPS has previously noted, this docket is limited to the question of *marginal* cost. UPS is preparing a petition to address other aspects of Postal Service cost attribution.

3000 zip code observations – far more than the number involved in the special parcel study. See Neels Second Suppl. Rep. at 39.

The Postal Service has never argued that it cannot collect the missing data. As noted above, the Postal Service could collect parcel volume data at the delivery unit without distinguishing between in-receptacle and deviation parcels. The Postal Service could then use data from the City Carrier Costing System to “calculate how the parcel mail stream is divided between deviation and in-receptacle parcels.” *Id.* at 24.

Alternatively, the Postal Service could leverage its recent IT investments and package labeling requirements. The Postal Service has recently invested billions of dollars into parcel scanners and the associated IT infrastructure to handle the increased load these scanners will create.⁷ The new Mobile Delivery Device (“MDD”) is at least 80% deployed to all rural and city carriers and it will complete its rollout in less than two months, by September 18, 2015.⁸ “MDDs are used to scan packages as they move through the USPS network, including when letter and rural carriers deliver them.” *Id.* MDDs allow carriers to classify a parcel delivery as “in/at mailbox” or at a “front door/porch,” corresponding directly to in-receptacle and deviation parcels. It should not be burdensome for the Postal Service to incorporate these accurate parcel counts into either the DOIS database or the Form 3999 database, or both.⁹

⁷ Federal News Radio, *Jim Cochrane, Chief Information Officer, U.S. Postal Service*, <http://www.federalnewsradio.com/537/3595577/Jim-Cochrane-Chief-Information-Officer-US-Postal-Service> (Apr. 3, 2014) (“Nearly 250,000 letter carriers will get handheld devices that let them track packages in real time.”).

⁸ *Mobile milestone: MDD deployment nears completion* (Jun. 15, 2015), available at <https://liteblue.usps.gov/news/link/2015/06jun/news16s1.htm>.

⁹ In fact, much or all of the data needed to avoid the current data imputations may already be in the Postal Service’s possession. MDDs have been rolled out throughout FY 2015, and presumably tens of thousands of route evaluations for the

In either case, the simple modification of current practices could allow the Postal Service to collect accurate parcel counts that could be fed into the National Form 3999 Model and dispense with the need for imputation altogether.

IV. THE NATIONAL FORM 3999 MODEL'S TEMPORARY NEED FOR IMPUTATION IS FAR OUTWEIGHED BY THE FLAWS OF PROPOSAL THIRTEEN.

The National Form 3999 Model cannot be considered in isolation. Rather, its modest limitations must be weighed against the significant weaknesses inherent in Proposal Thirteen.

As noted, at the heart of Proposal Thirteen is its indefensible segregation of so-called “regular” delivery time from parcel delivery time. The Postal Service and Amazon are simply unable to justify this segregation.

As an initial matter, it remains unclear how the Postal Service defines “regular” delivery time. The Postal Service in its Reply Comments defines “Regular Delivery Time” as “the time associated with directly delivering letters and flats.” Postal Service Reply Comments at 20 (May 13, 2015). In the CCST Report, however, the Postal Service defined Regular Delivery Time more broadly as “includ[ing] primary delivery activities like driving along the route within delivery sections, accessing stops (whether on foot or in a vehicle), putting letters and flats into customers’ mail receptacles, and retrieving collection mail from those receptacles.” CCST Report at 19. This broader

over 140,000 routes have been performed in the last year while the carrier had been issued an MDD. See CCST Report at 10 (indicating that over 50,000 of 140,000+ routes had had their most recent evaluation in the first half of 2013, and over 62,000 more had their most recent evaluation in 2012). The Postal Service also requires its Intelligent Mail Package Barcode on almost every package it delivers, which identifies package characteristics such as its weight, as well as the address to which it is delivered.

definition implicates all postal products, including parcels, which may explain why it is affected by parcel volumes. In this docket, however, the Postal Service did not clarify which definition is correct, despite being invited to do so. See UPS Supplemental Comments at 8 n.4 (Jun. 8, 2015).

Nor has the Postal Service demonstrated why separating parcel delivery time from “regular” delivery time is a reasonable approach. It stands to reason that a mail carrier will spend more time on a route when the carrier must deliver more parcels. The carrier may need to return more often to her vehicle, for example, to fill up her bag or cart. Alternately, a carrier may need to make another trip through her route in her delivery vehicle to deliver packages, after delivering letters first on foot. Reports confirm that “some mail carriers tend their routes twice a day, once with letters and once with packages.”¹⁰

Other reports confirm that, in some case, the parcels on a route cannot all fit inside the small vehicles currently used by almost all city carriers.¹¹ “USPS’s Office of Inspector General reported in December 2014 that it observed USPS delivery vehicles with insufficient loading space to accommodate large Parcel Select NSA packages for Sunday delivery, which required carriers to make multiple street deliveries or split

¹⁰ Laura Stevens, *For FedEx and UPS, a Cheaper Route: the Post Office*, WALL ST. J., (Aug. 4, 2014), <http://www.wsj.com/articles/u-s-mail-does-the-trick-for-fedex-ups-1407182247>.

¹¹ This is one main reason why the Postal Service is now purchasing “UPS sized and style vehicles.” Mike Colgan, *Familiar White Postal Service Trucks Too Small For Increasing Amount Of Parcels Being Mailed*, (Jan. 19, 2015), <http://sanfrancisco.cbslocal.com/2015/01/19/familiar-white-postal-service-trucks-too-small-for-increasing-amount-of-parcels-being-mailed/>.

routes, resulting in decreased operational efficiency and additional operating costs.”¹²
See Figure 2. This too would affect “regular” delivery time.

Figure 2: Postal Service Delivery Vehicles Filled with Parcels¹³



The reality is that the growth in parcel volumes undoubtedly complicates life for mail carriers. Proposal Thirteen, however, takes none of this into account. Instead, the model simply assumes that the delivery of parcels does not affect “regular” delivery time. This assumption was possibly harmless in 2002, but it is no longer tenable and becomes even less tenable each day as non-package volumes drop and package volumes surge.

¹² U.S. Government Accountability Office, *U.S. Postal Service: Improved Management Procedures Needed for Parcel Select Contracts*, Rep No. GAO-15-408 at 17-18 (April 2015) (citing USPS Office of Inspector General, Sunday Parcel Delivery Service, Rep. No. DRAR-15-002 (Arlington, VA: Dec. 5, 2014)).

¹³ U.S. Government Accountability Office, *U.S. Postal Service: Improved Management Procedures Needed for Parcel Select Contracts*, Rep No. GAO-15-408 at 18 (April 2015).

As Dr. Neels has shown, the data also contradicts this assumption. The data shows that including parcels in the regular delivery model yields an updated variability of 2.9% associated with parcel delivery. See Neels Second Suppl. Rep. at 31-34. As Dr. Neels explains, these econometric results “strongly reject the hypothesis that [] parcels do not have any effect on regular delivery time.” *Id.* at 31.

The Postal Service initially ignored Dr. Neels’ statistical results, but has now narrowed its position, arguing that the relationship between parcels and regular delivery time “is relatively small and is very difficult to estimate accurately.” Postal Service Comments at 4. In attempting to refute Dr. Neels’ results, Dr. Bradley relies on unconventional econometric tests ill-suited to investigating whether parcel volumes affect regular delivery time. Neels Second Suppl. Rep. at 30-31. As Dr. Neels shows, the correct and conventional tests indicate that parcels have a definite and clear effect on regular delivery time. *Id.*

Amazon asserts that multicollinearity could undermine the relationship between parcel volume and regular delivery time found by Dr. Neels. As Dr. Neels explains, however, multicollinearity cannot explain away the connection between these two variables because, as previously noted, multicollinearity is not a model issue but a data issue. If the data is sufficiently numerous and robust, multicollinearity presents no issue whatsoever. *Id.* at 29-30; see also CCST Report at 70 (“[A]n increase in the amount of data is an outstanding solution to multicollinearity.”). As the Postal Service improves its City Carrier data, multicollinearity will become even less of an issue. Thus, neither the Postal Service nor Amazon are able to defend the exclusion of parcel time from “regular” delivery time that is embedded in the model underlying Proposal Thirteen.

Nor has the Postal Service offered a credible defense for separating allied time from regular delivery time or a defense for piggybacking the estimation of allied time onto directly attributed time. While the model proposed by Dr. Neels removes this assumption by directly estimating street time as a whole, Proposal Thirteen would perpetuate it. Nor has the Postal Service clarified what exactly is encompassed by the category of “network travel time” or why this category must be treated as wholly fixed and thus not attributed at all. Neither the Postal Service nor Amazon nor their experts address this issue in their comments.¹⁴

Finally, Proposal Thirteen is dependent on data collected from special field studies. Putting aside the question of whether special field studies are ever valuable in econometric work (and they sometimes are valuable), it is clear that using actual operational data is a much better approach. Even the Postal Service has acknowledged that using data collected in the ordinary course of business is superior to using field studies to estimate that operational data. See, e.g., CCST Report at 4 (proposing to replace “expensive special studies that required collection of field data on all carrier activities” with “with data taken from its city carrier route evaluation system”).

¹⁴ The Postal Service asserts that the National Form 3999 Model relies on its own unacknowledged assumptions, including that the model “embodies the strong assumption that all of the various activities a carrier performs on the street have a single, homogenous cost generating function.” Postal Service Comments at 3. This criticism is meritless. Dr. Neels adopted the Postal Service’s recommended approach and employed a flexible functional form that can approximate an unknown function. As a result, even if it were the case that each of the individual activities into which the Postal Service divides city carrier street time had its own peculiar cost generating function – which UPS does not concede – these activity-specific cost generating functions could be summed to generate an overall gross street time cost. The flexible functional form employed by Dr. Neels, because of its flexibility, is able to approximate that overall gross street time cost generating function. This is likely why the Postal Service’s economist, Dr. Bradley, does not himself lodge this criticism.

The Commission has also indicated its preference to use operational data in the city carrier model.¹⁵

Proposal Thirteen's extreme focus on daily volume variations during two weeks in the spring of 2014 also illustrates its inability to generate accurate estimates of volume variability over time. As the Public Representative points out: "The Postal Service has offered no evidence to support a conclusion that volume variability that is produced by peak or trough volume patterns can be captured by such a limited data collection time frame. Although the duration of data collection captures daily variations in parcels volume, it does not capture monthly, quarterly, seasonal, or annual changes." Public Representative Comments at 8 (Mar. 18, 2015).

All parties, including the Postal Service, agree that special studies are expensive and burdensome, which explains why they are updated so infrequently. See Postal Service Reply Comments at 8 (May 13, 2015) ("Given the administrative resources available, collecting data from 300 sites over a two-week period approached the upper bound of cost."). An approach based on data collected in the ordinary course of business could be updated on a more frequent basis, and would be broader in scope. This is all the more important today given the rapid transformation of the Postal Service from a letter delivery agency to a parcel delivery company. The Postal Service is more dynamic today than it was in the past, and costing models must be more dynamic as well.

¹⁵ Dkt. No. RM2011-3, Order No. 589, Attachment at 1 (Nov. 18, 2010) ("It may also be appropriate to investigate the suitability of data from existing collection systems (e.g., Delivery Operations Information System) to reduce the need for reliance on one-time studies.").

For all of these reasons, UPS respectfully submits that the Commission should adopt the National Form 3999 Model with the imputation approaches as refined in Dr. Neels' latest report. This model is clearly superior to the model underlying Proposal Thirteen.

V. IN THE ALTERNATIVE, THE COMMISSION SHOULD ADOPT MODIFIED PROPOSAL 13 UNTIL THE RELEVANT DATA IS COLLECTED.

If the Commission is not prepared to accept the National Form 3999 Model at this time with the imputed values on which the model relies, then it should temporarily adopt Modified Proposal Thirteen until the Postal Service collects accurate operational data. Modified Proposal Thirteen addresses the most glaring flaw in Proposal Thirteen, recognizing and accounting at least in part for the fact the “regular” delivery time is sensitive to parcel volumes. As discussed above, this exclusion is not supportable. The Public Representative agrees it is “unlikely that the number of parcels has no effect on regular delivery,” Public Representative Comments at 3, and Dr. Neels has demonstrated with econometric analyses that parcel delivery has a statistically significant non-zero effect on regular delivery time. Thus, neither the Postal Service nor Amazon have provided a compelling reason to reject Modified Proposal Thirteen. Temporary adoption of Modified Proposal Thirteen while the Postal Service collects better data is a far superior option to adopting Proposal Thirteen itself.

VI. CONCLUSION

The immense improvement offered by the National Form 3999 Model vastly outweighs the need to impute data. Adopting Proposal Thirteen, by contrast, would set in place a flawed model based on poor data and riddled with dubious and unsupported

assumptions. Based on all the comments in this docket, the Commission should take the following actions:

- Adopt the National Form 3999 Model with the imputation approaches as refined in Dr. Neels' Second Supplemental Report. In the alternative, the Commission should adopt Modified Proposal Thirteen.
- Direct the Postal Service to collect data that can be broken out into the following categories: in-receptacle and deviation parcels, collections, and accountables.
- Revisit whether to update the model with the newly-collected data in early 2017.
- The Commission should also require the Postal Service to answer the unanswered questions identified by UPS regarding how the Postal Service handles Special Purpose Routes. See UPS Comments at 13-14 (Jun. 8, 2015). Despite the increasing use of Special Purpose Routes to accommodate rising parcel volumes, it appears from the Postal Service's limited disclosures that market dominant mailers cover nearly 75% of the costs of this cost category. Those mailers, and others, should not be kept in the dark about how the costs of those routes are attributed.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By: /s/ Steig D. Olson

Steig D. Olson
Quinn Emanuel Urquhart & Sullivan, LLP
51 Madison Ave., 22nd Floor
New York, NY 10010
(212) 849-7152
steigolson@quinnemanuel.com

Attorney for UPS